

PELLA COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2010

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**Pella Community School District
Board of Education and School District Officials
Year Ended June 30, 2010**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September, 2009 Election)		
Marv Van Wyk	President	2011*
Joan Corbin	Vice President	2009*
Myron Linn	Board Member	2009
Jennifer Palmer	Board Member	2011
Chad Ver Steeg	Board Member	2009
(After September, 2009 Election)		
Marv Van Wyk	President	2011*
Joan Corbin	Vice President	2013
Jennifer Palmer	Board Member	2011
Joy Flinchum	Board Member	2013**
Gregg Gustafson	Board Member	2013
Katie Peterson	Board Member	2013***
School District Officials		
Mark Wittmer	Superintendent	2010
Jon E. Miller	District Secretary/Treasurer	2010
Ron Peeler	Attorney	Indefinite

* Board term extended and reduced per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

** Resigned February 22, 2010

*** Appointed March 8, 2010 to fill vacancy. Will run for official election Sept, 2011.



Independent Auditor's Report

To the Board of Education of Pella Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District, Pella, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2010 on our consideration of Pella Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 13 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pella Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

September 24, 2010

Management Discussion and Analysis

The Pella Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- The October, 2008 enrollment count showed an increase of 6.4 students. This resulted in new money of \$525,027 for 2009-2010, which was an increase of 4.31%.
- General Fund revenues for FY10 were \$17,665,826 compared to \$18,187,978 for FY09. This was a decrease of \$522,151, or 2.87%.
- General Fund expenditures for FY10 were \$18,343,582 compared to \$17,643,752 for FY09. This was an increase of \$699,830, or 3.97%.
- The District's General Fund undesignated, unreserved fund balance for FY10 was \$883,598 compared to \$1,683,869 for FY09. This was a decrease of \$800,271. Carrying deferred revenue of \$559,702 for ARRA (American Recovery and Reinvestment Act) State Fiscal Stabilization Funds had a negative impact on the undesignated, unreserved fund balance for FY10. The expectation would be that this number will improve significantly for FY11 once the ARRA funds have been coded to proper expenditure accounts.
- The Financial Solvency Ratio is an accepted measure of the district's financial health and is calculated by taking the undesignated, unreserved fund balance divided by the total revenues. This ratio decreased from 9.3% in FY09 to 5.0% in FY10. The District attempts to target a solvency ratio of 5% to 10%.
- General Fund interest income for FY10 was \$4,645 compared to \$29,053 for FY09 and \$121,450 for FY08.
- The District ended FY10 with a special education deficit of \$486,270. This compares to \$210,092 for FY09, an increase of \$276,178. Reductions in weighted dollars at the state level were certainly a contributing factor for this increase in the deficit.
- In general, the 2009-2010 school year did not end up as financially dismal as first thought. The Governor's 10% across-the-board cut reduced our funding by \$994,919. Fortunately, that blow was softened by the ARRA funds that were received, along with a series of expenditure reductions and revenue enhancements that were implemented by the district. We still have challenges ahead of us, but feel we are reasonably well positioned to withstand these challenges.
- A nine year comparison of the District's assessed valuations, tax increment financing and total tax rates are as follows:

Year	Assessed Valuation	Tax Increment Financing	Total Tax Rate
2009-2010	\$ 603,548,029	34,192,965	13.83649
2008-2009	551,197,053	58,983,585	13.84418
2007-2008	478,010,818	72,596,699	13.88073
2006-2007	470,138,907	68,740,308	13.41259
2005-2006	463,535,140	66,071,157	13.52362
2004-2005	458,097,534	65,307,399	13.57896
2003-2004	477,138,783	60,053,193	13.31915
2002-2003	470,594,593	46,139,452	13.15690
2001-2002	442,301,775	31,155,430	13.66552

The assessed valuation for the 2004-2005 school year dropped due to the state imposed agriculture rollback.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

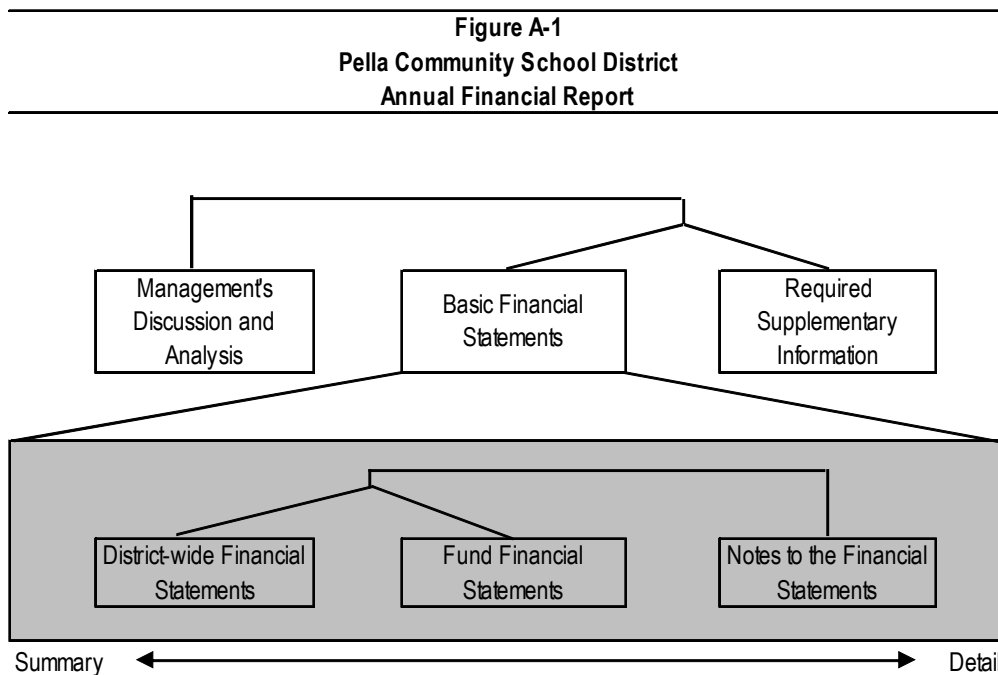


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the District-wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as the special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures, and changes in fund balances	* Statement of revenues, expenses and changes in net assets * Statement of cash flows	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year; or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid
Common names of district funds included	All funds with the exception of scholarship funds	General, PPEL, Management, Student Activity, Debt Service, Capital Projects	Nutrition Fund, Community Services	Special Projects

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school food service program would be included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

Fiduciary funds: The District is the trustee, or *fiduciary*, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District schools for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2010 compared to 2009.

Figure A-3							
Condensed Statement of Net Assets							
	Governmental Activities		Business type activities		Total		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Current assets	\$ 14,416,134	17,218,893	340,920	267,871	14,757,054	17,486,764	-15.6%
Noncurrent assets	32,323,721	30,655,942	258,328	251,122	32,582,049	30,907,064	5.4%
Total assets	46,739,855	47,874,835	599,248	518,993	47,339,103	48,393,828	-2.2%
Current liabilities	13,251,842	12,883,668	23,691	22,810	13,275,533	12,906,478	2.9%
Noncurrent liabilities	15,202,242	16,662,858	13,272	7,147	15,215,514	16,670,005	-8.7%
Total liabilities	28,454,084	29,546,526	36,963	29,957	28,491,047	29,576,483	-3.7%
Net assets:							
Invested in capital assets, net of related debt	15,953,721	12,825,942	258,328	251,122	16,212,049	13,077,064	24.0%
Restricted	1,514,866	3,756,642	-	-	1,514,866	3,756,642	-59.7%
Unrestricted	817,184	1,745,725	303,957	237,914	1,121,141	1,983,639	-43.5%
Total net assets	\$ 18,285,771	18,328,309	562,285	489,036	18,848,056	18,817,345	0.2%

The District's combined net assets increased by less than 1% from \$18,817,345 to \$18,848,056.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2010.

Figure A-4
Changes in Net Assets

	Governmental activities		Business type activities		Total District		Total Change
	Year ended June 30,		Year ended June 30,		Year ended June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Revenues:							
Program revenues:							
Charges for services	\$1,422,589	1,304,938	747,650	747,679	2,170,239	2,052,617	5.73%
Operating grants and contributions	3,357,258	3,015,482	359,357	309,602	3,716,615	3,325,084	11.78%
General Revenues:							
Local taxes	9,049,324	8,462,422	-	-	9,049,324	8,462,422	6.94%
Statewide sales and services tax	1,267,611	1,462,011	-	-	1,267,611	1,462,011	-13.30%
Unrestricted state grants	6,527,739	8,190,357	-	-	6,527,739	8,190,357	-20.30%
Investment earnings	11,769	51,233	777	1,551	12,546	52,784	-76.23%
Other	286,727	248,853	-	-	286,727	248,853	15.22%
Total revenues	21,923,017	22,735,296	1,107,784	1,058,832	23,030,801	23,794,128	-3.21%
Expenses:							
Program expenses:							
Instruction	14,086,832	13,345,527	-	-	14,086,832	13,345,527	5.55%
Support services - students & staff	1,183,463	1,202,609	-	-	1,183,463	1,202,609	-1.59%
Support services - administration	2,037,160	1,751,695	-	-	2,037,160	1,751,695	16.30%
Operations and maintenance	1,828,208	1,906,699	-	-	1,828,208	1,906,699	-4.12%
Transportation	974,797	1,269,613	-	-	974,797	1,269,613	-23.22%
Non-instructional activities	75,160	53,078	1,034,535	983,492	1,109,695	1,036,570	7.05%
Other expenditures	1,779,935	1,714,044	-	-	1,779,935	1,714,044	3.84%
Total expenses	21,965,555	21,243,265	1,034,535	983,492	23,000,090	22,226,757	3.48%
Change in net assets	\$ (42,538)	1,492,031	73,249	75,340	30,711	1,567,371	-98.04%

Governmental Activities

Local taxes and unrestricted state grants account for 71.0 percent of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services, which account for 91.5 percent of the total expenses.

Revenues for governmental activities were \$21,923,017 and expenses were \$21,965,555, resulting in a net asset decrease of \$42,538.

Figure A-5 presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services		Change	Net Cost of Services		Change
	2010	2009	2009-2010	2010	2009	2009-2010
Instruction	\$ 14,086,832	13,345,527	5.6%	10,297,996	9,980,506	3.2%
Support services	6,023,628	6,130,616	-1.7%	5,889,495	5,956,390	-1.1%
Non-instructional programs	75,160	53,078	41.6%	75,160	53,078	41.6%
Other expenses	1,779,935	1,714,044	3.8%	923,057	932,871	-1.1%
Totals	\$ 21,965,555	21,243,265	3.4%	17,185,708	16,922,845	1.6%

- The cost financed by users of the District's programs was \$1,422,589.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,357,258.
- The net cost of governmental activities was financed with \$9,049,324 in local taxes, \$6,527,739 in unrestricted state grants, \$1,267,611 in local option sales and services tax, \$11,769 in interest income and \$286,727 in other income.

Business-Type Activities

Revenues of the District's business-type activities were \$1,107,784 and expenses were \$1,034,535. The District's business-type activities include Families First and the School Nutrition Fund. The School Nutrition Fund, however, accounts for 94.9 percent of the business-type activity. Revenues of these activities were comprised of \$747,650 in charges for service, \$359,357 for federal and state reimbursements and investment income of \$771. The net assets for business-type activities increased by \$73,249.

Financial Analysis of the District's Funds

As previously noted, the Pella Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,891,156. This compares to \$5,912,804 last year, a decrease of \$3,021,648. The majority of this decline was due to spending down our Capital Projects Fund for the completion of three major construction projects.

Governmental Fund Highlights

- The General Fund balance decreased from \$2,157,750 to \$1,479,994, a decrease of \$677,756.
- The Activity Fund balance increased from \$182,076 to \$278,393, an increase of \$96,317.
- The Management Fund balance increased \$117,512, from \$234,451 to \$351,963.
- The Physical Plant & Equipment Levy (PPEL) Fund balance decreased \$398,807, from \$511,358 to \$112,551.
- The Capital Projects Fund balance decreased \$2,135,510, from \$2,728,831 to \$596,321. This reduction was expected as we completed three major construction projects. The School Infrastructure Local Option Sales Tax generated \$1,267,611. We receive money from Jasper, Mahaska and Marion Counties. Interest income was \$5,124.
- The Debt Service Fund decreased \$26,404, from \$98,338 to \$71,934. School Infrastructure Local Option Sales Taxes are used to maintain a debt service levy of \$2.24/\$1,000 or less, which was the amount in place when our most recent bond issue was passed.

Proprietary Fund Highlights

The District's Proprietary Funds include the School Nutrition Fund and Families First.

- The School Nutrition Fund net assets increased \$75,052, from \$477,062 to \$552,114.
- Families First is a community services oriented program. The revenues and expenditures of this program also run through the District's financial accounting records. This program is dependent upon contributions, grants and some user fees for its operation. The balance in this fund decreased \$1,803, from \$11,974 to \$10,171.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on page 42.

Legal Budgetary Highlights

The District's total actual receipts were \$1,282,720 less than the total budgeted receipts, a variance of 5.3%. Total expenditures were \$1,313,310 less than the amended budget, a variance of 4.8%. These variances are due in large part to the Governor's 10% across-the-board cut and the corresponding expenditure reductions.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2010, the District had invested \$32,582,049, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, musical instruments, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,443,244.

Figure A-6
Capital Assets, net of Depreciation

	Governmental Activities		Business Type activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Land	\$ 1,690,900	1,690,900	-	-	1,690,900	1,690,900	0.0%
Construction in progress	-	1,595,020	-	-	-	1,595,020	-100.0%
Buildings	26,383,838	24,850,557	-	-	26,383,838	24,850,557	6.2%
Improvements other than buildings	2,866,196	984,909	-	-	2,866,196	984,909	191.0%
Furniture and equipment	1,382,787	1,534,556	258,328	251,122	1,641,115	1,785,678	-8.1%
Totals	\$ 32,323,721	30,655,942	258,328	251,122	32,582,049	30,907,064	5.4%

The original cost of the District's capital assets was \$51,215,245. Governmental funds account for \$50,207,952 with the remaining \$1,007,293 in the School Nutrition Fund.

Long-Term Debt

At June 30, 2010, the District had \$17,062,977 in general obligation bonds and other long-term debt. This is a decrease of \$1,224,781 from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	June 30,		Total Change
	2010	2009	
General obligation bonds	\$ 13,760,000	14,745,000	-6.7%
Revenue bonds	2,610,000	3,085,000	-15.4%
Early retirement	542,383	382,972	41.6%
Other postemployment benefits	150,594	74,786	100.0%
Totals	\$ 17,062,977	18,287,758	-6.7%

The District had total outstanding bonded indebtedness at June 30, 2010 of \$13,760,000. This represents two separate bond issues, one of which will be retired in FY13 and the other in FY25. The District also has two outstanding revenue bond issues totaling \$2,610,000 as of June 30, 2010. Both of those issues will be retired in FY14.

The District also has a long-term debt obligation for its early retirement plan, which was \$542,383 at June 30, 2010. Retiring employees are currently allowed to receive payments until they reach age 65. This obligation is paid from the District's Management Fund. Other post employment benefits total \$150,594.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The Education Jobs Bill will generate \$426,405 of unexpected funds for the 2010-2011 school year. These dollars will allow us to restore many of the expenditure reductions that were put in place during the 2009-2010 school year. The restoration of these cuts will be done on a one-year basis, as we expect this revenue source to be for only one year.
- We have completed our energy systems upgrade and should begin to see the benefits of that project.
- The District's "Green Committee" continues to look for ways to become more environmentally friendly by recycling and reducing consumption. We are looking at an innovative roof replacement system that results in less material being taken to the local landfill. We are also considering LED lighting for our parking lots and continue to look into wind energy as a possibility for the District. We have an ongoing effort to reduce the amount of paper used by staff and students.
- We now know that our October, 2010 enrollment remained relatively steady with a 1.6 student increase. These students will provide funding for the 2011-2012 school year. Allowable growth has not yet been set for 2011-2012, so the amount of new money is unknown at this time. The recent election has changed the political landscape and education will, in all likelihood, be affected to some degree by this change.
- The District's transportation fleet remains in good shape overall. This past year we purchased two busses and one support vehicle.
- Pella is home to the corporate headquarters of Pella Corporation and Vermeer Manufacturing. The current economic recession has affected both companies with reduced workers' hours and reduced overall total workforce. Pella Corporation has been particularly affected by the depressed housing market. The property tax base, however, still remains solid at this point and housing starts continue, though not nearly as strong as in the past. We may see a negative impact regarding our income surtax dollars due to these reductions in hours.
- The Pella Community School District is very unique in that it does not have a collective bargaining agreement with its teachers. There continues to be a very amicable relationship between management and labor.
- There will be a change in leadership as the Superintendent of Schools has announced his retirement effective June 30, 2011.
- All in all, the 2009-2010 school year was not as financially bad as we once thought it might be. The 2010-2011 school year seems manageable at this point in time thanks to the Education Jobs Bill, but we are cautious about any potential adverse action by the Legislature that could negatively impact our funding. The 2011-2012 school year may be the one to keep an eye on as the federal stimulus money will be gone and the economy continues a slow recovery.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jon E. Miller, Board Secretary / Business Manager, Pella Community School District, 210 E. University, P.O. Box 468, Pella, Iowa, 50219.

Basic Financial Statements

Exhibit A
Pella Community School District
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 4,613,095	306,662	4,919,757
Receivables:			
Property tax:			
Delinquent	84,668	-	84,668
Succeeding year	8,586,194	-	8,586,194
Accounts	800	-	800
Due from other governments	954,236	-	954,236
Inventories	30,553	28,580	59,133
Prepaid expense	146,588	5,678	152,266
Total current assets	14,416,134	340,920	14,757,054
Noncurrent assets:			
Capital assets, nondepreciable	1,690,900	-	1,690,900
Capital assets, depreciable, net	30,632,821	258,328	30,891,149
Total noncurrent assets	32,323,721	258,328	32,582,049
Total assets	\$ 46,739,855	599,248	47,339,103
Liabilities			
Current liabilities:			
Accounts payable	\$ 231,777	5,385	237,162
Salaries and benefits payable	1,284,281	17,516	1,301,797
Accrued interest payable	51,045	-	51,045
Unearned revenue:			
Succeeding year property tax	8,586,194	-	8,586,194
Other	1,171,992	-	1,171,992
General obligation bonds payable	1,030,000	-	1,030,000
Revenue bonds payable	580,000	-	580,000
Early retirement	250,734	-	250,734
Compensated absences	65,819	790	66,609
Total current liabilities	13,251,842	23,691	13,275,533
Noncurrent liabilities:			
General obligation bonds payable	12,730,000	-	12,730,000
Revenue bonds payable	2,030,000	-	2,030,000
Early retirement	291,648	-	291,648
Other post employment benefits	150,594	13,272	163,866
Total noncurrent liabilities	15,202,242	13,272	15,215,514
Total liabilities	28,454,084	36,963	28,491,047

Exhibit A**Pella Community School District
Statement of Net Assets
June 30, 2010**

	Governmental Activities	Business Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	15,953,721	258,328	16,212,049
Restricted for:			
Categorical funding	269,255	-	269,255
Management levy	60,315	-	60,315
Physical plant and equipment levy	112,551	-	112,551
Other special revenue	278,393	-	278,393
Capital projects	207,821	-	207,821
Debt service	409,390	-	409,390
Purpose restricted	177,141	-	177,141
Unrestricted	817,184	303,957	1,121,141
Total net assets	18,285,771	562,285	18,848,056
Total liabilities and net assets	\$ 46,739,855	599,248	47,339,103

See notes to financial statements.

Exhibit B

Pella Community School District
Statement of Activities
Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Functions/Programs					Total
Governmental activities:					
Instruction:					
Regular	\$ 8,861,557	526,583	1,751,705	(6,583,269)	- (6,583,269)
Special	2,460,587	277,599	576,375	(1,606,613)	- (1,606,613)
Other	2,764,688	614,698	41,876	(2,108,114)	- (2,108,114)
	14,086,832	1,418,880	2,369,956	(10,297,996)	- (10,297,996)
Support Service:					
Student	421,373	-	-	(421,373)	- (421,373)
Instructional staff	762,090	-	-	(762,090)	- (762,090)
Administration	2,037,160	-	-	(2,037,160)	- (2,037,160)
Operating and maintenance of plant	1,828,208	3,709	130,424	(1,694,075)	- (1,694,075)
Transportation	974,797	-	-	(974,797)	- (974,797)
	6,023,628	3,709	130,424	(5,889,495)	- (5,889,495)
Non-instructional programs	75,160	-	-	(75,160)	- (75,160)
Other expenditures:					
Long-term debt interest	753,825	-	-	(753,825)	- (753,825)
AEA flowthrough	856,878	-	856,878	-	-
Depreciation (unallocated)*	169,232	-	-	(169,232)	- (169,232)
	1,779,935	-	856,878	(923,057)	- (923,057)
Total governmental activities	21,965,555	1,422,589	3,357,258	(17,185,708)	- (17,185,708)
Business type activities:					
Non-instructional programs:					
Community services	52,381	24,443	26,135	-	(1,803) (1,803)
Nutrition services	982,154	723,207	333,222	-	74,275 74,275
Total business type activities	1,034,535	747,650	359,357	-	72,472 72,472
Total primary government	\$ 23,000,090	2,170,239	3,716,615	(17,185,708)	72,472 (17,113,236)

Exhibit B

Pella Community School District
Statement of Activities
Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Operating Grants, Contributions and Restricted			
	Expenses	Charges for Service	Interest	Governmental Activities	Business Type Activities
					Total
Totals continued from previous pages	\$ 23,000,090	2,170,239	3,716,615	(17,185,708)	72,472
General Revenues:					
Property tax levied for:					
General purposes				7,276,806	-
Debt service				1,135,234	-
Capital outlay				637,284	-
Statewide sales and services tax				1,267,611	-
Unrestricted state grants				6,527,739	-
Unrestricted investment earnings				11,769	777
Contributions not restricted to specific programs				145,150	-
Capital asset loss on disposal				(59,325)	-
Other				200,902	-
Total general revenues				17,143,170	777
Change in net assets				(42,538)	73,249
Net assets beginning of year				18,328,309	489,036
Net assets end of year				\$ 18,285,771	562,285

*This amount excludes the depreciation included in the direct expenses of the various programs

See notes to financial statements.

Exhibit C

Pella Community School District
Balance Sheet
Governmental Funds
June 30, 2010

	General	Debt Service	Capital Projects	Non-major Governmental	Total
Assets					
Cash and pooled investments	\$ 3,036,596	60,331	498,763	1,017,405	4,613,095
Receivables:					
Property tax:					
Current year delinquent	61,629	11,558	-	11,481	84,668
Succeeding year	6,289,998	1,142,931	-	1,153,265	8,586,194
Accounts	800	-	-	-	800
Due from other governments	836,347	45	117,798	46	954,236
Inventories	30,553	-	-	-	30,553
Prepaid expenses	146,588	-	-	-	146,588
Total assets	\$ 10,402,511	1,214,865	616,561	2,182,197	14,416,134
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 176,757	-	20,240	34,780	231,777
Salaries and benefits payable	1,283,770	-	-	511	1,284,281
Early retirement payable	-	-	-	250,734	250,734
Deferred revenue:					
Succeeding year property tax	6,289,998	1,142,931	-	1,153,265	8,586,194
Other	1,171,992	-	-	-	1,171,992
Total liabilities	8,922,517	1,142,931	20,240	1,439,290	11,524,978
Fund balances:					
Reserved for:					
Inventories	30,553	-	-	-	30,553
Prepaid expense	146,588	-	-	-	146,588
Categorical funding	269,255	-	-	-	269,255
Debt service	-	71,934	388,500	-	460,434
Unreserved:					
Designated for special purposes by the Board	150,000	-	-	-	150,000
Undesignated, reported in:					
General Fund					
Special revenue					
General Fund	883,598	-	207,821	742,907	1,834,326
Total fund balances	1,479,994	71,934	596,321	742,907	2,891,156
Total liabilities and fund balances	\$ 10,402,511	1,214,865	616,561	2,182,197	14,416,134

See notes to financial statements.

Exhibit D**Pella Community School District
Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Assets
June 30, 2010**

Total fund balances of governmental funds (Exhibit C)	\$ 2,891,156
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***Amounts reported for governmental activities in the
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	32,323,721
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(51,045)
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Long-term liabilities, including bonds payable and early retirement, compensated absences, and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(16,878,061)</u>
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Net assets of governmental activities (Exhibit A)	<u>\$ 18,285,771</u>
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See notes to financial statements.

Exhibit E

**Pella Community School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year ended June 30, 2010**

	General	Debt Service	Capital Projects	Non-major Governmental	Total
Revenues:					
Local sources:					
Local tax	\$ 6,777,157	1,135,234	1,267,611	1,136,933	10,316,935
Tuition	696,529	-	-	-	696,529
Other	288,196	259	22,126	755,056	1,065,637
Intermediate sources	54,462	-	-	-	54,462
State sources	8,833,960	401	-	411	8,834,772
Federal sources	1,014,007	-	-	-	1,014,007
Total revenues	17,664,311	1,135,894	1,289,737	1,892,400	21,982,342
Expenditures:					
Current:					
Instruction:					
Regular instruction	7,836,538	-	-	283,835	8,120,373
Special instruction	2,361,109	-	-	-	2,361,109
Other instruction	2,109,476	-	-	599,256	2,708,732
	12,307,123	-	-	883,091	13,190,214
Support services:					
Student services	384,601	-	-	785	385,386
Instructional staff services	676,436	-	-	471	676,907
Administration services	1,511,562	-	-	442,444	1,954,006
Operation and maintenance of plant services	1,642,518	-	-	117,093	1,759,611
Transportation services	964,464	-	-	28,429	992,893
	5,179,581	-	-	589,222	5,768,803
Other expenditures:					
Facilities acquisition	-	-	2,367,544	605,065	2,972,609
Long-term debt:					
Principal	-	1,460,000	-	-	1,460,000
Interest	-	755,351	-	-	755,351
Fiscal charges	-	1,650	-	-	1,650
AEA flowthrough	856,878	-	-	-	856,878
	856,878	2,217,001	2,367,544	605,065	6,046,488
Total expenditures	18,343,582	2,217,001	2,367,544	2,077,378	25,005,505
Deficiency of revenues under expenditures	(679,271)	(1,081,107)	(1,077,807)	(184,978)	(3,023,163)

Exhibit E**Pella Community School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year ended June 30, 2010**

	General	Debt Service	Capital Projects	Non-major Governmental	Total
Other financing sources (uses):					
Proceeds from sale of assets	1,515	-	-	-	1,515
Operating transfers in	-	1,054,703	-	-	1,054,703
Operating transfers out	-	-	(1,054,703)	-	(1,054,703)
Total other financing sources (uses)	1,515	1,054,703	(1,054,703)	-	1,515
Net change in fund balances	(677,756)	(26,404)	(2,132,510)	(184,978)	(3,021,648)
Fund balances beginning of year	2,157,750	98,338	2,728,831	927,885	5,912,804
Fund balances end of year	\$ 1,479,994	71,934	596,321	742,907	2,891,156

See notes to financial statements.

Exhibit F**Pella Community School District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds to the Statement of Activities
Year ended June 30, 2010**

Net change in fund balances - total governmental funds (Exhibit E) **\$ (3,021,648)**

***Amounts reported for governmental activities in the
Statement of Activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 3,135,975	
Depreciation expense	(1,407,356)	
Proceeds from sale of capital assets	(1,515)	
Loss on disposal of capital assets	<u>(59,325)</u>	1,667,779

Proceeds from issuing long-term liabilities provide current financial resources to government funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. The amounts of long-term liabilities issued and repaid are as follows:

Repaid	1,460,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

3,176

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	(73,576)	
Compensated absences	(2,461)	
Other postemployment benefits	<u>(75,808)</u>	(151,845)

Change in net assets of governmental activities (Exhibit B) **\$ (42,538)**

See notes to financial statements.

Exhibit G

Pella Community School District
Statement of Net Assets
Proprietary Funds
June 30, 2010

	Non-Major Enterprise Funds
Assets	
Current assets:	
Cash and investments	\$ 306,662
Inventories	28,580
Prepaid expense	5,678
Total current assets	<u>340,920</u>
Noncurrent assets:	
Property and equipment:	
Machinery and equipment	1,007,293
Accumulated depreciation	<u>(748,965)</u>
Total noncurrent assets	<u>258,328</u>
Total assets	<u><u>\$ 599,248</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 5,385
Salaries and benefits payable	17,516
Compensated absences	790
Total current liabilities	<u>23,691</u>
Noncurrent liabilities:	
Other postemployment benefits	<u>13,272</u>
Total liabilities	<u><u>36,963</u></u>
Net Assets	
Invested in capital assets, net of related debt	258,328
Unrestricted	<u>303,957</u>
Total net assets	<u><u>562,285</u></u>
Total liabilities and net assets	<u><u>\$ 599,248</u></u>

See notes to financial statements.

Exhibit H**Pella Community School District
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
Year Ended June 30, 2010**

	<u>Non-Major Enterprise Funds</u>
Operating revenue:	
Local sources:	
Operating revenues	<u>\$ 747,650</u>
Operating expenses:	
Non-instructional programs:	
Community service operations:	
Other	52,381
Food service operations:	
Depreciation	35,888
Other	946,266
Total operating expenses	<u>1,034,535</u>
Operating loss	<u>(286,885)</u>
Non-operating revenue:	
Local sources	26,912
State sources	9,533
Federal sources	323,689
Total non-operating revenue	<u>360,134</u>
Net income	73,249
Net assets beginning of year	<u>489,036</u>
Net assets end of year	<u><u>\$ 562,285</u></u>

See notes to financial statements.

Exhibit I

Pella Community School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2010

	Non-Major Enterprise Funds
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 723,060
Cash received from service tuition, fees and other sources	25,101
Cash payments to employees for services	(483,926)
Cash payments to suppliers for goods or services	(428,987)
Net cash used by operating activities	(164,752)
Cash flows from non-capital financing activities:	
Operating grants and contributions received	26,135
State grants received	9,533
Federal grants received	247,736
Net cash provided by non-capital financing activities	283,404
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(43,094)
Net cash used by capital and related financing activities	(43,094)
Cash flows from investing activities:	
Interest on investments	777
Net cash provided by investing activities	777
Net increase in cash and cash equivalents	76,335
Cash and cash equivalents at beginning of year	195,327
Cash and cash equivalents at end of year	\$ 271,662
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (286,885)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities	75,953
Depreciation	35,888
Decrease in inventories	3,544
(Increase) in prepaid expense	(258)
Increase in accounts payable	679
Increase in salaries and benefits payable	292
(Decrease) in compensated absences payable	(90)
Increase in other postemployment benefits payable	6,125
Net cash used by operating activities	\$ (164,752)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash and investments	\$ 306,662
Less items not meeting definition of cash equivalents:	
Certificates of deposit	(35,000)
Cash and cash equivalents at year end	\$ 271,662

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received federal commodities valued at \$75,953.

See notes to financial statements.

Exhibit J**Pella Community School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010**

	Private Purpose Trust	Expendable Trust
	Scholarship	Special Projects
Assets		
Current assets:		
Cash and pooled investments	\$ 101,549	69,367
Accounts receivable	-	3,013
Total assets	101,549	72,380
Liabilities		
Current liabilities:		
Accounts payable	-	1,575
Total liabilities	-	1,575
Net assets		
Held in trust for scholarships and special projects	101,549	70,805
Total net assets	\$ 101,549	70,805

See notes to financial statements.

Exhibit K**Pella Community School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2010**

	Private Purpose Trust	Expendable Trust
	Scholarship	Special Projects
Additions:		
Local sources:		
Contributions and donations	\$ -	44,392
Interest	1,505	-
Total revenues	1,505	44,392
Deductions:		
Instruction:		
Supplies	-	52,081
Other	3,500	-
Total expenditures	3,500	52,081
Change in net assets	(1,995)	(7,689)
Net assets beginning of year	103,544	78,494
Net assets end of year	\$ 101,549	70,805

See notes to financial statements.

(1) Summary of Significant Accounting Policies

Pella Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. The geographic area served includes the City of Pella, Iowa. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pella Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Pella Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

Fund accounting - The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net assets, revenues and expenditures or expenses, as appropriate. The District has the following funds:

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund: The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

Debt Service Fund: The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

Capital Projects Fund: The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The other governmental funds of the District are considered non-major and are as follows:

Special Revenue Funds: The Special Revenue Funds account for the revenue sources that are legally restricted to expenditures for specific purposes. These funds consist of the following:

Student Activity Funds: This fund accounts for transactions that occur due to student-related activities from groups and organizations such as athletic and activity events, fundraising and other extra-curricular or co-curricular activities.

Management Fund: This fund is authorized by Iowa Code Section 298.4 and accounts for transactions related to unemployment, early retirement, judgments and settlements and the cost of liability insurance as it relates to property and casualty.

Physical Plant and Equipment Levy (PPEL) Fund: This fund is authorized by Iowa Code 298.2 and accounts for transactions related to the improvement of facilities and grounds, construction of school houses, certain equipment expenditures and other expenditures authorized in Iowa Code 298.3.

Proprietary Fund Types: Proprietary fund types are used to account for the District's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position and cash flows. The following are the District's proprietary funds:

Enterprise Funds: Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the District has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements, issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

The following enterprise funds of the District are considered non-major:

Community Services: This fund accounts for child after school operations and for community-family service operations authorized by Iowa Code 298A.12 and 279.49.

Nutrition Services: This fund accounts for transactions related to the school lunch, breakfast and summer food programs authorized by Iowa Code 283A.

Fiduciary Fund Types: Fiduciary funds account for assets held by the District in a trustee or agency capacity for the benefit of others and cannot be used to support District activities. The District has the following fiduciary fund types:

Private Purpose Trust Fund: These funds account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

Expendable Trust Fund: These funds account for assets held by the District for special projects of the District with funds given by individuals, private organizations and other governments.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expense when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred and Unearned Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as the succeeding year's property tax receivable.

Unearned revenue on the Statement of Net Assets consists of unspent grant proceeds as well as the succeeding year's property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures exceeded the amounts budgeted in the non-instructional functional area.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 1,054,703
		<u>\$ 1,054,703</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,690,900	-	-	1,690,900
Construction in progress	1,595,020	-	1,595,020	-
Total capital assets not being depreciated	3,285,920	-	1,595,020	1,690,900
Capital assets being depreciated:				
Buildings	33,173,761	2,376,631	-	35,550,392
Improvements other than buildings	1,570,383	2,062,579	-	3,632,962
Furniture and equipment	9,769,160	291,785	727,247	9,333,698
Total capital assets being depreciated	44,513,304	4,730,995	727,247	48,517,052
Less accumulated depreciation for:				
Buildings	8,323,204	843,350	-	9,166,554
Improvements other than buildings	585,474	181,292	-	766,766
Furniture and equipment	8,234,604	382,714	666,407	7,950,911
Total accumulated depreciation	17,143,282	1,407,356	666,407	17,884,231
Total capital assets being depreciated, net	27,370,022	3,323,639	60,840	30,632,821
Governmental activities capital assets, net	\$ 30,655,942	3,323,639	1,655,860	32,323,721
Business type activities:				
Furniture and equipment	\$ 964,199	43,094	-	1,007,293
Less accumulated depreciation	713,077	35,888	-	748,965
Business type activities capital assets, net	\$ 251,122	7,206	-	258,328

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 724,431
Special education	79,639
Other	49,774

Support services:

Student support	10,671
Instructional staff	79,164
Administration	10,005
Operation and maintenance of plant	70,223
Transportation	139,057
Non-instructional programs	75,160

	1,238,124
Unallocated	169,232

Total depreciation expense - governmental activities	\$ 1,407,356
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Business type activities:

Food services	\$ 35,888
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(5) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 14,745,000	-	985,000	13,760,000	1,030,000
Revenue bonds	3,085,000		475,000	2,610,000	580,000
Early retirement	382,972	324,310	164,899	542,383	250,734
Other postemployment benefits	74,786	75,807	-	150,593	-
	<u>\$ 18,287,758</u>	<u>400,117</u>	<u>1,624,899</u>	<u>17,062,976</u>	<u>1,860,734</u>

General Obligation Bonds

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Bond Issue of June 1, 2005				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2011	4.00%	\$ 535,000	555,275	1,090,275
2012	4.00%	560,000	533,875	1,093,875
2013	4.00%	590,000	511,475	1,101,475
2014	4.00%	680,000	487,875	1,167,875
2015	4.00%	715,000	460,675	1,175,675
2016	4.00%	750,000	432,075	1,182,075
2017	4.50%	775,000	402,075	1,177,075
2018	4.50%	810,000	367,200	1,177,200
2019	4.50%	850,000	330,750	1,180,750
2020	5.00%	885,000	292,500	1,177,500
2021	5.00%	925,000	248,250	1,173,250
2022	5.00%	970,000	202,000	1,172,000
2023	5.00%	1,015,000	153,500	1,168,500
2024	5.00%	1,065,000	102,750	1,167,750
2025	4.50%	1,100,000	49,500	1,149,500
Subtotal		<u>12,225,000</u>	<u>5,129,775</u>	<u>17,354,775</u>

Refunding Bond Issue of November 1, 2008				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2011	3.73%	\$ 495,000	57,256	552,256
2012	3.73%	510,000	38,792	548,792
2013	3.73%	530,000	19,769	549,769
Subtotal		<u>1,535,000</u>	<u>115,817</u>	<u>1,650,817</u>

Pella Community School District
Notes to Financial Statements
June 30, 2010

Total			
Year ending June 30,	Principal	Interest	Total
2011	\$ 1,030,000	612,531	1,642,531
2012	1,070,000	572,667	1,642,667
2013	1,120,000	531,244	1,651,244
2014	680,000	487,875	1,167,875
2015	715,000	460,675	1,175,675
2016	750,000	432,075	1,182,075
2017	775,000	402,075	1,177,075
2018	810,000	367,200	1,177,200
2019	850,000	330,750	1,180,750
2020	885,000	292,500	1,177,500
2021	925,000	248,250	1,173,250
2022	970,000	202,000	1,172,000
2023	1,015,000	153,500	1,168,500
2024	1,065,000	102,750	1,167,750
2025	1,100,000	49,500	1,149,500
Total	\$ 13,760,000	5,245,592	19,005,592

Revenue Bonds

Details of the District's June 30, 2010 local option sales and services tax revenue bonded indebtedness are as follows:

Bond Issue of June 1, 1997				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2011	3.60%	\$ 180,000	28,713	208,713
2012	3.60%	190,000	22,232	212,232
2013	3.75%	200,000	15,393	215,393
2014	3.85%	205,000	7,892	212,892
Subtotal		775,000	74,230	849,230

Bond Issue of May 1, 2009				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2011	2.300%	400,000	53,750	453,750
2012	2.750%	425,000	44,550	469,550
2013	3.125%	490,000	32,862	522,862
2014	3.375%	520,000	17,550	537,550
Subtotal		1,835,000	148,712	1,983,712

Total			
Year ending June 30,	Principal	Interest	Total
2011	580,000	82,463	662,463
2012	615,000	66,782	681,782
2013	690,000	48,255	738,255
2014	725,000	25,442	750,442
Total	\$ 2,610,000	222,942	2,832,942

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,750,000 bonds issued in June, 1997. The bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2014. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The total principal and interest remaining to be paid on the notes is \$849,230. For the current year, principal of \$175,000 and interest of \$35,012 was paid on the bonds.

The District has pledged future statewide sales, services and use tax revenues to repay the \$2,135,000 bonds issued in May, 2009. The bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2014. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The total principal and interest remaining to be paid on the notes is \$1,983,712. For the current year, principal of \$300,000 and interest of \$69,705 was paid on the bonds.

Total statewide sales, services and use tax revenues were \$1,267,611.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$175,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

The early retirement incentive for each eligible employee is based on a percentage of the employee's final year's salary. The percentage used for calculation is based on years of service to the District. The percentage varies from 38% for 10 years of service to 57% for 15 or more years of experience.

Early retirement benefits are paid monthly over the number of months until the employee turns 65. If the retiree is of an age that these monthly payments would exceed 36 months, the retiree may request payment over 36 months.

At June 30, 2010, the District has obligations to 25 participants with a total liability of \$542,383. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$164,899.

(6) Other Post-Employment Benefits (OPEB)

Plan Description - The District operates a retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 709 active and 56 retired members in the plan. Participants must be age 55 or older at retirement and must have been employed full time by the District for a minimum of 10 years within the 12 consecutive years prior to the retirement year.

The medical/prescription drug coverage is purchased through an outside provider. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 131,150
Interest on net OPEB obligation	2,048
Annual OPEB cost	133,198
Contributions made	(51,265)
Increase in net OPEB obligation	81,933
Net OPEB obligation beginning of year	81,933
Net OPEB obligation end of year	<u>\$ 163,866</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

The required contribution is based on projected pay-as-you-go financing. For the year ended June 30, 2010, the District contributed \$51,265. Retiree and active members receiving benefits contributed \$332,408 through their required contribution for single and family health coverage combined, depending on which of the two plans offered by the District the employee participated in.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 133,198	38.4%	\$ 163,866

Funded Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$835,783, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$835,783. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$11,975,928, and the ratio of the UAAL to covered payroll was 7.0%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumption includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$295 per month for retirees who have attained age 65. The salary increase rate was assumed to be 2.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$819,555, \$763,693, and \$695,806, respectively, equal to the required contributions for each year.

(8) Risk Management

Pella Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$856,878 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Required Supplementary Information

Pella Community School District
 Budgetary Comparison Schedule of Revenues, Expenditures and Change in Balances
 Budget and Actual - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 12,079,101	774,562	12,853,663	12,636,055	12,636,055	217,608
Intermediate sources	54,462	-	54,462	5,000	5,000	49,462
State sources	8,834,772	9,533	8,844,305	11,081,791	11,081,791	(2,237,486)
Federal sources	1,014,007	323,689	1,337,696	650,000	650,000	687,696
Total revenues	21,982,342	1,107,784	23,090,126	24,372,846	24,372,846	(1,282,720)
Expenditures:						
Instruction	13,190,214	-	13,190,214	13,050,000	13,450,000	259,786
Support services	5,768,803	-	5,768,803	6,583,350	6,583,350	814,547
Noninstructional programs	-	1,034,535	1,034,535	1,010,000	1,025,000	(9,535)
Other expenditures	6,046,488	-	6,046,488	4,370,209	6,295,000	248,512
Total expenditures	25,005,505	1,034,535	26,040,040	25,013,559	27,353,350	1,313,310
Excess (deficiency) of revenues over (under) expenditures	(3,023,163)	73,249	(2,949,914)	(640,713)	(2,980,504)	30,590
Other financing sources, net	1,515	-	1,515	2,000	2,000	(485)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(3,021,648)	73,249	(2,948,399)	(638,713)	(2,978,504)	30,105
Balances beginning of year	5,912,804	489,036	6,401,840	3,562,273	3,562,273	2,839,567
Balances end of year	\$ 2,891,156	562,285	3,453,441	2,923,560	583,769	2,869,672

See accompanying independent auditor's report.

Pella Community School District
Notes to Required Supplementary Information - Budgetary Reporting
Year Ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with *Governmental Accounting Standards* Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$2,339,791.

During the year ended June 30, 2010, expenditures exceeded the amounts budgeted in the non-instructional functional area.

Pella Community School District
Schedule of Funding Progress for the Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	\$ -	\$ 835,783	\$ 835,783	0.0%	\$ 11,754,674	7.1%
2010	July 1, 2008	-	835,783	835,783	0.0%	11,975,928	7.0%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

Schedule 1

**Pella Community School District
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2010**

	Special Revenue Funds			
	Management	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 597,684	289,182	130,539	1,017,405
Receivables:				
Property tax:				
Current year delinquent	4,992	-	6,489	11,481
Succeeding year	500,001	-	653,264	1,153,265
Due from other governments	21	-	25	46
Total assets	\$ 1,102,698	289,182	790,317	2,182,197
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	10,278	24,502	34,780
Salaries and benefits payable	-	511	-	511
Early retirement	250,734	-	-	250,734
Deferred revenue:				
Succeeding year property tax	500,001	-	653,264	1,153,265
Total liabilities	<u>750,735</u>	<u>10,789</u>	<u>677,766</u>	<u>1,439,290</u>
Fund balances:				
Unreserved, undesignated	<u>351,963</u>	<u>278,393</u>	<u>112,551</u>	<u>742,907</u>
Total liabilities and fund equity	\$ 1,102,698	289,182	790,317	2,182,197

See accompanying independent auditor's report.

Schedule 2

**Pella Community School District
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2010**

	Special Revenue Funds			
	Management	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax:				
Property tax	\$ 493,492	-	629,853	1,123,345
Utility tax replacement excise tax	5,780	-	6,977	12,757
Mobile home tax	377	-	454	831
	499,649	-	637,284	1,136,933
Other local sources:				
Interest on investments	-	1,483	258	1,741
Student activities	-	595,970	-	595,970
Contributions and donations	-	69,875	-	69,875
Other	53,530	28,245	5,695	87,470
	53,530	695,573	5,953	755,056
	553,179	695,573	643,237	1,891,989
State sources:				
Revenue in lieu of taxes - military credit	186	-	225	411
Total revenues	553,365	695,573	643,462	1,892,400
Expenditures:				
Instruction:				
Regular instruction:				
Salaries	228,519	-	-	228,519
Benefits	52,916	-	-	52,916
Services	2,400	-	-	2,400
	283,835	-	-	283,835
Co-curricular instruction:				
Salaries	-	11,584	-	11,584
Benefits	-	1,066	-	1,066
Services	-	274,139	-	274,139
Supplies	-	302,326	-	302,326
Property	-	6,617	-	6,617
Other	-	3,524	-	3,524
	-	599,256	-	599,256
Total instruction	283,835	599,256	-	883,091
Support Services:				
Student support services:				
Benefits	785	-	-	785
Instructional staff support services:				
Benefits	471	-	-	471

Schedule 2

**Pella Community School District
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2010**

	Special Revenue Funds			
	Management	Student Activity	Physical Plant and Equipment Levy	Total
Expenditures (continued):				
Support Services (continued):				
General administration:				
Benefits	314	-	-	314
Services	1,943	-	-	1,943
	2,257	-	-	2,257
Building administration:				
Benefits	2,512	-	-	2,512
Business administration:				
Benefits	471	-	-	471
Administration technology services:				
Services	-	-	32,849	32,849
Supplies	-	-	75,166	75,166
Property	-	-	329,189	329,189
	-	-	437,204	437,204
Plant operation and maintenance:				
Benefits	38,857	-	-	38,857
Services	78,236	-	-	78,236
	117,093	-	-	117,093
Student transportation:				
Benefits	14,403	-	-	14,403
Services	14,026	-	-	14,026
	28,429	-	-	28,429
Total support services	152,018	-	437,204	589,222
Other expenditures:				
Facilities acquisition and construction:				
Services	-	-	604,497	604,497
Other	-	-	568	568
	-	-	605,065	605,065
Total expenditures	435,853	599,256	1,042,269	2,077,378
Excess (deficiency) of revenues over (under) expenditures	117,512	96,317	(398,807)	(184,978)
Fund balances beginning of year	234,451	182,076	511,358	927,885
Fund balances end of year	\$ 351,963	278,393	112,551	742,907

See accompanying independent auditor's report.

Schedule 3
Pella Community School District
Combining Statement of Net Assets
Proprietary Funds
June 30, 2010

	Non-major Enterprise Funds		
	Community Services	Nutrition Services	Total
Assets			
Current assets:			
Cash and investments	\$ 10,320	296,342	306,662
Inventories	-	28,580	28,580
Prepaid expense	-	5,678	5,678
Total current assets	10,320	330,600	340,920
Noncurrent assets:			
Property and equipment:			
Machinery and equipment	-	1,007,293	1,007,293
Accumulated depreciation	-	(748,965)	(748,965)
Total noncurrent assets	-	258,328	258,328
Total assets	\$ 10,320	588,928	599,248
Liabilities			
Current liabilities:			
Accounts payable	\$ 149	5,236	5,385
Salaries and benefits payable	-	17,516	17,516
Compensated absences	-	790	790
Total current liabilities	149	23,542	23,691
Noncurrent liabilities:			
Other postemployment benefits	-	13,272	13,272
Total liabilities	149	36,814	36,963
Net Assets			
Invested in capital assets, net of related debt	-	258,328	258,328
Unrestricted	10,171	293,786	303,957
Total net assets	10,171	552,114	562,285
Total liabilities and net assets	\$ 10,320	588,928	599,248

See accompanying independent auditor's report.

Schedule 4

**Pella Community School District
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2010**

	Non-major Enterprise Funds		
	Community Services	Nutrition Services	Total
Operating revenues:			
Local sources:			
Other local sources:			
Community service tuition and fees	\$ 24,443	-	24,443
Sale of lunches and breakfasts	-	723,060	723,060
Other service revenue	-	147	147
Total operating revenues	24,443	723,207	747,650
Operating expenses:			
Non-instructional programs:			
Community service operations:			
Salaries	29,174	-	29,174
Benefits	3,876	-	3,876
Services	1,400	-	1,400
Supplies	17,931	-	17,931
	52,381	-	52,381
Food services operations:			
Salaries	-	343,783	343,783
Benefits	-	112,909	112,909
Services	-	20,167	20,167
Supplies	-	468,850	468,850
Other	-	557	557
Depreciation	-	35,888	35,888
	-	982,154	982,154
Total operating expenses	52,381	982,154	1,034,535
Operating loss	(27,938)	(258,947)	(286,885)
Non-operating revenues:			
Interest income	-	777	777
Operating grants and donations	26,135	-	26,135
State lunch and breakfast program claims	-	9,533	9,533
National School Lunch Program	-	221,745	221,745
School Breakfast Program	-	25,991	25,991
Food distribution	-	75,953	75,953
Total non-operating revenues	26,135	333,999	360,134
Net income (loss)	(1,803)	75,052	73,249
Net assets beginning of year	11,974	477,062	489,036
Net assets end of year	\$ 10,171	552,114	562,285

See accompanying independent auditor's report.

Schedule 5

**Pella Community School District
Combining Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2010**

	Non-major Enterprise Funds		
	Community Services	Nutrition Services	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ -	723,060	723,060
Cash received from service tuition, fees and other sources	24,954	147	25,101
Cash payments to employees for services	(34,072)	(449,854)	(483,926)
Cash payments to suppliers for goods or services	(19,222)	(409,765)	(428,987)
Net cash used by operating activities	(28,340)	(136,412)	(164,752)
Cash flows from non-capital financing activities:			
Operating grants and contributions	26,135	-	26,135
State grants received	-	9,533	9,533
Federal grants received	-	247,736	247,736
Net cash provided by operating activities	26,135	257,269	283,404
Cash flows from capital and related financing activities:			
Acquisition of capital assets	-	(43,094)	(43,094)
Net cash used by capital and related financing activities	-	(43,094)	(43,094)
Cash flows from investing activities:			
Interest on investments	-	777	777
Net cash provided by investing activities	-	777	777
Net increase (decrease) in cash and cash equivalents	(2,205)	78,540	76,335
Cash and cash equivalents at beginning of year	12,525	182,802	195,327
Cash and cash equivalents at end of year	\$ 10,320	261,342	271,662
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$ (27,938)	(258,947)	(286,885)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Commodities	-	75,953	75,953
Depreciation	-	35,888	35,888
Decrease in inventories	-	3,544	3,544
(Increase) in prepaid expense	-	(258)	(258)
Increase in accounts payable	109	570	679
Increase in salaries and benefits payable	-	292	292
(Decrease) in compensated absences payable	-	(90)	(90)
Increase (Decrease) in other postemployment benefits payable	(511)	6,636	6,125
Net cash used by operating activities	\$ (28,340)	(136,412)	(164,752)

Schedule 5**Pella Community School District
Combining Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2010**

	Non-major Enterprise Funds		
	Community Services	Nutrition Services	Total
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash and investments	\$ 10,320	296,342	306,662
Less items not meeting definition of cash equivalents:			
Certificates of deposit	-	(35,000)	(35,000)
Cash and cash equivalents at year end	<u>\$ 10,320</u>	<u>261,342</u>	<u>271,662</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received federal commodities valued at \$75,953.

See accompanying independent auditor's report.

Schedule 6

Pella Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2010

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
Booster/PTO Concessions	\$ 741	(829)	67,561	66,387	1,086
HS Drama	318	-	2,282	1,380	1,220
HS Speech	2,866	350	836	3,602	450
HS Debate	-	100	444	515	29
HS Vocal	2,702	37	60,031	45,282	17,488
HS Instr. Music	7,795	1,921	6,405	9,956	6,165
HS Instr. Music Fundraiser	5,742	200	89,031	18,375	76,598
Orchestra Trip Account	55	-	-	-	55
Orchestra	100	350	919	1,231	138
Vocal Music Trip Account	6,698	-	23,112	27,817	1,993
Band Uniform	11,965	100	12,378	4,691	19,752
Athletics	(161)	10,225	9,769	14,524	5,309
HS Boys Bask.	-	(6,997)	30,422	23,425	-
HS Football	-	(3,435)	59,583	56,148	-
HS Boys Soccer	-	(729)	7,506	6,777	-
HS Baseball	-	3,263	3,326	6,589	-
HS Track	-	2,611	1,210	3,821	-
HS Boys Cross Country	-	1,817	2,364	4,497	(316)
HS Boys Tennis	-	809	48	857	-
HS Boys Golf	-	3,777	174	3,951	-
HS Wrestling	-	121	3,611	3,732	-
HS Girls Basketball	-	(1,766)	10,197	8,431	-
HS Volleyball	-	(1,623)	12,229	10,606	-
HS Girls Soccer	-	1,264	4,318	5,582	-
HS Softball	-	(423)	4,336	3,913	-
HS Girls Track	-	(121)	3,662	3,541	-
HS Girls Cross Country	-	879	2,363	3,558	(316)
HS Girls Tennis	-	631	2,242	2,873	-
HS Girls Golf	-	2,400	170	2,570	-
HS Activity Tickets	-	(22,702)	22,702	-	-
HS Miscellaneous Activity	4,968	-	767	-	5,735
Girls Soccer Club	634	-	6,079	6,017	696
Girls Track Club	770	-	4,433	4,098	1,105
Boys Track Club	181	-	1,180	1,227	134
Boys Soccer Club	3,417	(150)	9,281	7,583	4,965
Boys Golf Club	7	-	-	-	7
Swimming Club	372	-	750	749	373
Pella Connection Club	3,428	-	346	1,147	2,627
HS Cheerleaders	5,992	100	3,382	8,670	804
HS Vending	(18)	-	7,533	5,094	2,421
HS Testing	5,984	-	3,241	5,083	4,142
Class of 2007	74	-	-	-	74
Class of 2009	75	-	-	-	75
Class of 2011	2,745	-	3,280	3,780	2,245
Class of 2012	1,435	-	-	-	1,435
Class of 2013	-	-	1,562	-	1,562
Softball Concessions	(1,121)	1,638	7,088	6,994	611
Baseball Concessions	562	-	1,188	2,089	(339)
Boys Basketball Concessions	3,843	(283)	11,704	10,135	5,129
Girls Golf Concessions	81	-	672	672	81
Drill Team	1,454	100	19,110	15,836	4,828
FFA	8,660	100	27,967	28,203	8,524
FHA	2,142	-	4,048	2,650	3,540
Humanities	645	-	-	-	645

Schedule 6

**Pella Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2010**

Account	Balance Beginning of Year	Transfers In (Out)	Revenues	Expendi- tures	Balance End of Year
Interest	883	(1,900)	1,484	23	444
Technology Student Association	7,745	250	5,965	6,672	7,288
National Honor Society	330	-	-	87	243
Pep Club	406	-	-	-	406
HS PE Heart Club	1,496	-	-	-	1,496
French Club	1,612	-	-	-	1,612
HS Student Council	302	100	1,436	1,078	760
Publications	53,749	200	40,578	43,011	51,516
Craft Show-Yearbook	189	-	-	-	189
HS Weight Club	1,654	-	-	104	1,550
HS Football Jerseys	10,209	-	8,304	9,230	9,283
Football Parents	1,900	-	16,637	16,474	2,063
Wrestling Club	551	-	2,801	3,218	134
Girls Basketball Club	1,287	-	3,199	3,040	1,446
Volleyball Club	311	-	5,417	4,505	1,223
MS Vocal Music	2,317	100	4,426	2,376	4,467
MS Instrumental Music	1,495	100	2,642	-	4,237
MS Cross Country	-	90	-	90	-
MS Athletics	(248)	4,646	-	4,748	(350)
MS Boys Basketball	-	(544)	1,578	1,034	-
MS Football	-	2,387	2,139	4,526	-
MS Boys Track	-	(53)	1,273	1,220	-
MS Wrestling	-	984	338	1,322	-
MS Girls Basketball	-	(589)	1,534	945	-
MS Volleyball	-	515	1,964	2,479	-
MS Softball	-	1,391	-	1,391	-
MS Girls Track	-	301	120	421	-
MS Activity Tickets	-	(1,713)	1,713	-	-
MS Cheerleaders	1,125	-	540	1,608	57
MS Library/Book Fair	97	-	2,634	2,631	100
MS History Day Club	21	-	-	-	21
MS Gifted and Talented	700	-	-	-	700
MS Activity	3,814	-	13,399	13,201	4,012
MS Home Ec	1,399	-	-	1,060	339
MS Language Arts	267	-	-	-	267
MS Social Studies	304	-	-	-	304
MS AR Store	69	-	-	-	69
MS Student Council	1,515	-	862	581	1,796
Elementary PTO	130	-	-	-	130
Lincoln Elementary	252	-	4,055	4,169	138
Madison Elementary	128	-	6,131	5,950	309
Jefferson Elementary	870	-	7,562	7,404	1,028
Jefferson Recycling	46	-	-	-	46
Totals	\$ 182,076	-	695,573	599,256	278,393

See accompanying independent auditor's report.

Schedule 7

Pella Community School District
Schedule of Revenues by Source and Expenditure by Function
All Governmental Funds
For the Last Nine Years

	Modified Accrual Basis								
	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues:									
Local sources:									
Local tax	\$ 10,316,935	9,924,433	8,759,431	8,331,502	8,227,665	7,744,098	7,073,282	6,725,009	6,600,191
Tuition	696,529	614,100	498,004	623,795	592,952	601,419	489,605	201,329	216,030
Other	1,065,637	948,695	1,041,828	1,358,267	1,501,637	755,499	672,917	1,207,656	996,648
Intermediate sources	54,462	41,897	18,785	37,523	18,082	15,000	15,000	18,428	15,309
State sources	8,834,772	10,489,005	10,318,253	9,168,676	8,531,765	7,999,448	7,781,624	7,426,618	7,481,658
Federal sources	1,014,007	717,166	477,670	424,983	521,521	430,845	446,378	344,089	263,894
Total	\$ 21,982,342	22,735,296	21,113,971	19,944,746	19,393,622	17,546,309	16,478,806	15,923,129	15,573,730
Expenditures:									
Instruction:									
Regular	\$ 8,120,373	8,052,519	7,476,168	6,830,022	6,329,880	6,275,810	6,321,718	6,025,245	6,176,546
Special	2,361,109	2,332,868	2,344,069	2,028,208	1,781,523	2,183,808	2,062,595	1,859,024	1,706,911
Other	2,708,732	2,273,264	2,001,692	1,961,808	1,922,355	1,207,063	1,285,721	1,483,823	1,279,078
Support services:									
Student	385,386	412,003	386,123	302,002	306,129	325,470	499,204	484,767	444,537
Instructional staff	676,907	661,268	753,039	762,889	809,570	794,337	677,684	628,426	624,769
Administration	1,954,006	1,737,873	1,634,630	1,462,779	1,643,583	1,284,737	1,136,764	1,103,990	1,041,328
Operation and maintenance of plant services	1,759,611	1,809,861	1,847,350	1,706,062	1,675,658	1,489,740	1,639,083	1,383,316	1,284,975
Transportation	992,893	1,031,167	1,113,573	1,130,895	1,028,477	693,693	699,316	553,744	603,798
Non-instructional programs	-	-	-	-	-	296	16,086	11,350	7,467
Other expenditures:									
Facilities acquisition	2,972,609	1,989,527	2,849,534	9,094,847	4,020,376	1,760,941	597,119	361,383	354,533
Long-term debt:									
Principal	1,460,000	4,265,000	1,170,000	1,115,000	1,070,000	995,000	805,000	770,000	935,000
Interest and other charges	757,001	772,857	833,430	891,941	931,550	386,050	368,831	403,278	450,694
AEA flowthrough	856,878	781,173	732,846	660,488	610,764	586,232	592,881	604,874	608,706
Total	\$ 25,005,505	26,119,380	23,142,454	27,946,941	22,129,865	17,983,177	16,702,002	15,673,220	15,518,342

See accompanying independent auditor's report.

Schedule 8

**Pella Community School District
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010**

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 10	\$ 25,991
National School Lunch Program	10.555	FY 10	297,698 *
			<u>323,689</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY 10	103,078
ARRA - Title I Grants to Local Education Agencies - Recovery Act	84.389	FY 10	43,905
			<u>146,983</u>
Vocational Education - Basic Grants to States	84.048	FY 10	<u>29,721</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 10	<u>4,961</u>
Special Education - State Program Improvement Grants for Children with Disabilities	84.323	FY 10	<u>1,183</u>
Improving Teacher Quality State Grants	84.367	FY 10	<u>65,862</u>
Grants for State Assessments and Related Activities	84.369	FY 10	<u>14,654</u>
ARRA - State Fiscal Stabilization Fund(SFSF) - Education State Grants, Recovery Act	84.394	FY 10	<u>371,847</u>
Area Education Agency (AEA 11):			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	FY 10	127,192
ARRA - Special Education - Grants to States - Recovery Act	84.391	FY 10	176,563
			<u>303,755</u>
Total			<u><u>\$ 1,262,655</u></u>

* Includes \$75,953 of non-cash rewards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Pella Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of Pella Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Pella Community School District, Pella, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 24, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pella Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pella Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pella Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pella Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pella Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Pella Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom Pella Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pella Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Van Maanen, Sietstra & Meyer, PC". The signature is written in a cursive, flowing style.

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

September 24, 2010



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Van Maanen, Sietstra & Meyer, PC

CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

To the Board of Education of Pella Community School District:

Compliance

We have audited the compliance of Pella Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Pella Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Pella Community School District's management. Our responsibility is to express an opinion on Pella Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pella Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pella Community School District's compliance with those requirements.

In our opinion, Pella Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Pella Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Pella Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pella Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

Pella Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Pella Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom Pella Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

September 24, 2010

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.394 – ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act
 - Clustered programs:
 - CFDA Number 84.027 – Special Education-Grants to States (IDEA, Part B)
 - CFDA Number 84.391 - Special Education-Grants to States (IDEA, Part B), Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Pella Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

- II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, expenditures are recorded and checks are prepared by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 84.027: Special Education-Grants to States
CFDA Number 84.391: Special Education-Grants to States, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Area Education Agency (AEA 11)

CFDA Number 84.394: ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, expenditures are recorded and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-10 Certified Budget - Expenditures for the year ended June 30, 2010, exceeded the certified budget amount in the non-instructional functional area.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

IV-B-10 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

Pella Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

IV-D-10 Business Transactions - Business transactions between the District and District officials or employees for the year ended June 30, 2010 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Chris Wimmer, Maintenance Supervisor Owner of Construction Services	Equipment rental	\$4,772
Jim Emmert, Teacher Owner of Dr. E., Ltd.	T-shirt printing	\$ 294

None of the transactions appear to be a conflict of interest and they appear to be in compliance with board policies.

Recommendation - The District may want to consult legal counsel to determine disposition of this matter.

Response - We will consider the need to consult with legal counsel.

Conclusion - Response accepted.

IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-F-10 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

IV-G-10 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-10 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

Pella Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2010

IV-K-10 Statewide Sales, Services and Use Tax – No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

Beginning balance	\$	-
Statewide sales, services and use tax revenue		1,267,611
Expenditures/transfers out		
School infrastructure:		
Other improvements	\$	212,908
Debt service for school infrastructure:		
General obligation debt		475,000
Revenue debt		579,703
		<u>1,267,611</u>
Ending balance	\$	<u>-</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 0.35603	\$ 101,211